

GROSSMONT UNION HIGH SCHOOL DISTRICT

Audit Report

SCHOOL DISTRICT OF CHOICE: TRANSFERS AND APPEALS PROGRAM

Chapter 160, Statutes of 1993,
and Chapter 1262, Statutes of 1994

July 1, 2000, through June 30, 2003



STEVE WESTLY
California State Controller

December 2005



STEVE WESTLY
California State Controller

December 23, 2005

Terry Ryan, Ed.D., Superintendent
Grossmont Union High School District
1100 Murray Drive
El Cajon, CA 92020

Dear Dr. Ryan:

The State Controller's Office audited the costs claimed by the Grossmont Union High School District for the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 2000, through June 30, 2003.

The district claimed \$440,636 for the mandated program. Our audit disclosed that the entire amount is unallowable, because the district claimed unsupported costs. The State paid the district \$374,135, which the district should return.

If you disagree with the audit finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:wq

cc: Patricia Floyd, Director

Fiscal Services

Grossmont Union High School District

Dr. Rudy Castruita County Superintendent of Schools

San Diego County Office of Education

Scott Hannan, Director

School Fiscal Services Division

California Department of Education

Arlene Matsuura, Education Fiscal Services Consultant

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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Finding and Recommendation	5
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Grossmont Union High School District for the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was October 25, 2004.

The district claimed \$440,636 for the mandated program. Our audit disclosed that the entire amount is unallowable, because the district claimed unsupported costs. The State paid the district \$374,135. The district should return the total amount to the State.

Background

Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994 added and amended *Education Code* Sections 48209.1, 48209.7, 48209.10, 48209.13, and 48209.14. The law requires that any school district may elect to accept interdistrict transfers and become a school district of attendance "choice" for pupils from other school districts. It also establishes the statutory right of the parent or guardian of a pupil who is prohibited from transferring to appeal this decision to the county board of education.

The choice program requires districts that elect to participate to adopt several nondiscriminatory practices.

- Transfers are to be allowed on a random basis, subject to a numerical limit adopted by either the "sending" district of residence or the "receiving" district of choice, and may be prohibited if they adversely affect either school district's integration program;
- Although districts are not required to establish new programs to accommodate the pupil transfer, the school district of choice cannot prohibit a transfer of a pupil just because the additional cost of educating the pupil would exceed the amount of additional State aid received as a result of the transfer;
- Resident pupils cannot be displaced by a choice transfer;
- When a transfer request is rejected, the district must provide written notification to the parent or guardian stating the reason; and
- Once a transfer is granted, the pupil has the right of continuation to other grade levels.

All school districts are required to collect and report data on the number of requests submitted, transfers granted, and transfers denied.

On April 28, 1995, and May 6, 1996, the Commission on State Mandates (COSM) determined that Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on July 25, 1996, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the School District of Choice: Transfers and Appeals Program for the period of July 1, 2000, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17561, and 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, the Grossmont Union High School District claimed \$440,636 for costs of the School District of Choice: Transfers and Appeals Program. Our audit disclosed that the entire amount is unallowable.

For fiscal year (FY) 2000-01, the State paid the district \$229,000. Our audit disclosed that none of the costs claimed is allowable. The district should return the total amount paid to the State.

For FY 2001-02, the State paid the district \$145,135. Our audit disclosed that none of the costs claimed is allowable. The district should return the total amount to the State.

For FY 2002-03, the State did not reimburse the district. Our audit disclosed that none of the costs claimed is allowable.

**Views of
Responsible
Official**

The SCO issued a draft report on October 7, 2005. Robert J. Cornelius, Assistant Superintendent, Business Services, responded by letter dated October 24, 2005, disagreeing with the audit results. The final report includes the district's response.

Restricted Use

This report is solely for the information and use of the Grossmont Union High School District, the San Diego County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2003

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2000, through June 30, 2001</u>			
Salaries and benefits	\$ 219,868	\$ —	\$ (219,868)
Indirect costs	12,818	—	(12,818)
Total program costs	<u>\$ 232,686</u>	—	<u>\$ (232,686)</u>
Less amount paid by the State		(229,000)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (229,000)</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Salaries and benefits	\$ 139,125	\$ —	\$ (139,125)
Indirect costs	6,010	—	(6,010)
Total program costs	<u>\$ 145,135</u>	—	<u>\$ (145,135)</u>
Less amount paid by the State		(145,135)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (145,135)</u>	
<u>July 1, 2002, through June 30, 2003</u>			
Salaries and benefits	\$ 61,850	\$ —	\$ (61,850)
Indirect costs	965	—	(965)
Total program costs	<u>\$ 62,815</u>	—	<u>\$ (62,815)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>Summary: July 1, 2000, through June 30, 2003</u>			
Salaries and benefits	\$ 420,843	\$ —	\$ (420,843)
Indirect costs	19,793	—	(19,793)
Total program costs	<u>\$ 440,636</u>	—	<u>\$ (440,636)</u>
Less amount paid by the State		(374,135)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (374,135)</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Unallowable salary and benefit costs, and related indirect costs

The district claimed unsupported salary and benefit costs of \$420,843 for the audit period. The related indirect costs total \$19,793.

For the entire audit period, the district claimed costs based on employee declarations. Most of the declarations were prepared towards the end of each fiscal year. For fiscal year (FY) 2000-01 and FY 2001-02, several declarations were prepared during the month of May, but included hours for the following month. The declarations included total hours spent on the mandated activity for each month. The district stated that the hours recorded on these declarations were “reasonable good faith estimates.” However, the district provided no source documents to validate the estimated hours.

Furthermore, when we inquired about how employees spent the estimated time, the district revealed that the estimate included time spent responding to all information requests. Per the district, information requests could relate to both intradistrict and interdistrict transfer requests. Activities associated with responding to intradistrict transfer requests and interdistrict transfer requests based on parent’s place of employment (Interdistrict Transfer Requests; Parent’s Employment mandate) and other interdistrict transfers (Interdistrict Attendance Permit mandate) are unrelated to this mandated program.

A summary of unallowable costs is as follows.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Salary and benefit costs	\$ (219,868)	\$ (139,125)	\$ (61,850)	\$ (420,843)
Related indirect costs	(12,818)	(6,010)	(965)	(19,793)
Audit adjustment	<u>\$ (232,686)</u>	<u>\$ (145,135)</u>	<u>\$ (62,815)</u>	<u>\$ (440,636)</u>

Parameters and Guidelines states that only actual increased costs incurred to implement alternative pupil attendance choice transfers and supported by appropriate documentation are reimbursable.

Recommendation

We recommend that the district develop and implement an adequate accounting and reporting system to ensure that all claimed costs are properly supported and reimbursable for the mandate program.

District’s Response

Employee Time Records

The draft audit report eliminates 100% of the claimed costs. The Controller asserts that the reason for the adjustment is that the “district claimed costs based on employee declarations” of “estimated hours” which is not “appropriate documentation.” The entire basis for the adjustments is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were excessive or unreasonable.

Legal Requirements for Claim Preparation

Regarding supporting documentation for the annual claims, the parameters and guidelines state:

“VI. CLAIM PREPARATION

B) Supporting Documentation

1) Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive hourly rate and related benefits. The average number of hours devoted to each function may be claimed if supported by a documented time study.

“VII. SUPPORTING DATA

For auditing purposes, all costs claimed must be traceable to source documents (e.g., employee time records, invoices, receipts, purchase orders, contracts, etc.) and/or worksheets that show evidence of and the validity of such claimed costs.”

Annual Reporting

The Controller asserts that a monthly or annual summary of staff hours spent on the mandated activities is unacceptable. The Controller’s standard is that all mandate and non-mandate daily activities of each employee should be recorded contemporaneously on some sort of daily time sheet. This is a policy preference of the Controller and not supported by the parameters and guidelines or any other legal basis. The Controller insists that staff time be recorded contemporaneously. The fact that the reported staff time is recorded after the activity reported occurred is not a valid objection because the annual reimbursement claims are prepared months after the activity reported. In fact, in every court and tribunal in this nation, people competently testify as to facts that occurred weeks, months and years previously.

Employee Declarations

The District reported staff time for this mandate using documentation which the Controller characterizes as “employee declaration.” The Controller has, as a matter of policy rather than law, rejected the use of employee declarations because they are not “contemporaneous” documentation and are without “corroborating evidence.” The Controller concludes that since the parameters and guidelines make no reference to the use of declarations to support claimed costs that the declarations are insufficient documentation. If this “no reference to” standard were pertinent, then the Controller is enforcing a double standard. The parameters and guidelines “make no reference to” contemporaneous documentation or corroborating evidence, yet the Controller insists that such a standard must be applied.

This is underground rulemaking by the State Controller’s Office. The parameters and guidelines do not provide advance notice that declarations (certified employee time records) are unacceptable documentation. These certifications satisfy the parameters and guidelines in that, as employee time records and/or worksheets, they are, themselves, source documents that show evidence of and the validity of the costs claimed.

The Controller is asserting documentation standards which are not stated in the parameters and guidelines and not adopted pursuant to the Administrative Procedure Act. The Commission on State Mandates, which has appellate jurisdiction for Controller audits, does not conduct hearings according to technical rules relating to evidence and witnesses and allows the admission of all relevant evidence (specifically including declarations) on which responsible persons are accustomed to rely upon the conduct of serious affairs (Title 2, California Code of Regulations, Section 1187.5). The Controller cannot establish a standard by audit practice which exceeds that of the Commission and the courts which have jurisdiction over the audit.

Other Transfers

The Controller asserts that the District improperly claimed staff time spent on information requests for other transfers, that is, interdistrict transfers for parent employment and other reasons. To the contrary, the parameters and guidelines state:

“VI. REIMBURSABLE COSTS

B) Reimbursable Activities

1) Information Requests

For all school district to respond to telephone and written inquiries for information regarding alternative pupil attendance choices for its schools, programs, policies and procedures.”

The source of this mandate is Education Code Section 48209.13 as added by Chapter 160, Statutes of 1993, which required school districts to provide this information upon request. Therefore, scope of this mandate is to respond to all alternative attendance choices, not just school district of choice.

SCO’s Comment

The finding remains unchanged. Our comments to the district’s responses for each respective issue are as follows.

Employee Time Records

We disagree with the district’s argument that “the entire basis for the adjustment is the quantity and quality of the District documentation.” Our audit found that salaries and benefits costs claimed were unsupported because the method the district used to determine time spent did not comply with *Parameters and Guidelines*. *Parameters and Guidelines* requires school districts to track the actual time devoted to each reimbursable function by each employee. The district did not use this methodology in calculating its claimed costs. Instead, the district claimed costs based on “reasonable good faith estimates” from individual employees. The district did not provide source documents to validate the estimated time spent. Thus, the district neither used an acceptable methodology nor adequately supported its claimed costs.

Monthly or annual summaries of staff hours spent on mandated activities are acceptable if substantiated by source documents, such as time records, that show evidence and validity of such costs. As stated above, the summaries provided were prepared toward the end of each fiscal year. Furthermore, for a few months, the summaries were prepared in advance. The district did not provide records that would show evidence of and the validity of hours recorded on these summaries.

We are not requiring that all non-mandate daily activities of each employee be recorded contemporaneously on some sort of daily time sheet. Furthermore, we are not establishing standards. Pursuant to *Parameters and Guidelines*, we are requiring documentation supporting actual costs incurred.

Other Transfers

In accordance with *Parameters and Guidelines*, reimbursable costs for information requests include costs incurred for activities related to alternative pupil attendance choices. *Parameters and Guidelines* specifically states that costs incurred for requests provided elsewhere in the law are not reimbursable. The *Education Code* Section 48209.13 contains no express reference to any type of pupil transfer, between either schools or districts. This section, when reviewed in the context of the mandate (Chapter 160, Statutes of 1993, Article 1.5, Pupil Attendance Alternative), implies that pupils be provided with the alternative to transfer to a school district of choice—an interdistrict transfer. Thus, the mandate only provides reimbursement for costs incurred for information request for alternative pupil choices as it relates to the school district of choice.

Other Issues

The district's response also addressed the following issues. Our comments immediately follow the district's response.

Statutes of LimitationsDistrict's Response

The District's FY 2000-01 claim was filed on January 8, 2002. The District's FY 2001-02 claim was filed on December 31, 2002. Pursuant to Government Code Section 17558.5, these claims are subject to audit only until December 31, 2004. The draft audit report is dated October 7, 2005, which means the audit will be completed after the statute of limitations date. Therefore, the audit adjustment for FY 2000-01 and FY 2001-02 are barred by the statute of limitations.

SCO's Comment

We disagree with the district's assertion that this audit and the related adjustment of the claims are barred by the statute of limitations.

Government Code Section 17558.5(a), in effect during the audit period, allows the SCO to initiate—rather than requires completion of—an audit no later than two years after the end of the calendar year in which the claim is filed or last amended. The FY 2000-01 claim was filed on January 15, 2002, and the FY 2001-02 claim was filed on December 31, 2002. We initiated the audit on October 5, 2004, which is before the statutory deadline of December 31, 2004, to commence an audit for both fiscal years.

Public Records RequestDistrict's Response

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines "source documents" or declares that "declarations are unacceptable documentation."

Government Code Section 6253, subdivision (c), requires the state agency which is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefor. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

SCO's Comment

We provided the district with the requested information in a separate letter dated November 16, 2005.

**Audit Authority to
Question Claimed
Costs**District's Response

The State Controller has engaged in underground rulemaking by applying a standard of general application after the fact that declarations (certified employee time records) are not an acceptable form of documents that show evidence of and the validity of the costs claimed. All of the District documentation was rejected by the Controller. The Controller did not cite any statutory basis for its audit adjustments. Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994 do not provide any authority for the Controller to eliminate the claimed cost. Nor does Government Code Section 17561 or the Commission regulations (Chapter 2.5, Title 2, California Code of Regulations) provide any authority for the Controller to eliminate the claimed costs. Absent some statutory authorization, another source of authority must be stated by the Controller.

SCO's Comment

The audit result is not based on “underground rulemaking” by the SCO, as suggested by the district. The SCO has authority to audit actual amounts of mandated costs claimed and to adjust the amounts claimed for unsupported costs.

The Objective, Scope, and Methodology section of the report previously referenced *Government Code* Section 17558.5. This section has been updated to also reference *Government Code* Sections 21410 and 17561.

Government Code Section 17558.5 provides the SCO with authority to audit “reimbursement claims for actual costs filed by a local agency or school district.”

Government Code Section 12410 provides the SCO with authority to “audit the disbursement of any state money for correctness, legality, and for sufficient provisions of law for payment.”

Government Code Section 17561 provides the SCO with authority to “audit the records of any local agency or school district to verify the actual amount of mandated costs, may reduce any claim that the Controller determines is excessive and unreasonable, and shall adjust the payment to correct for any underpayments or overpayment which occurred in previous years.” We adjusted the claims for costs the district did not support as representing actual costs incurred.

**Attachment—
District's Response to
Draft Audit Report**



COMMITTED TO EXCELLENCE
S I N C E 1 9 2 0

• GOVERNING BOARD MEMBERS

JIM KELLY
RON NEHRING
PRISCILLA SCHREIBER
LARRY URDAHL
EVELYN WILLS

• SUPERINTENDENT

TERRY RYAN

October 24, 2005

Mr. Jim L. Spano, Chief
Compliance Audits Bureau, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Grossmont Union High School District
Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994
School District of Choice: Transfers and Appeals
Fiscal Years 2000-01, 2001-02, and 2002-03

Dear Mr. Spano:

This letter is the response of Grossmont Union High School District to the letter from Jeffrey V. Brownfield, dated October 7, 2005, and received by the District on October 21, 2005, which enclosed a draft copy of your audit report of the District's School District of Choice: Transfers and Appeals program annual reimbursement claims for the period of July 1, 2000 through June 30, 2003.

Employee Time Records

The draft audit report eliminates 100% of the claimed costs. The Controller asserts that the reason for the adjustment is that the "district claimed costs based on employee declarations" of "estimated hours" which is not "appropriate documentation." The entire basis for the adjustments is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were excessive or unreasonable.

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October 24, 2005
Mr. Jim L. Spano, Chief
Compliance Audits Bureau
Page Two

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Page Three

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Statute of Limitations

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Public Records Request

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period which defines "source documents" or declares that "declarations are unacceptable documentation."

October 24, 2005
Mr. Jim L. Spano, Chief
Compliance Audits Bureau
Page Four

Government Code section 6253, subdivision (c), requires the state agency which is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefor. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

The State Controller has engaged in underground rulemaking by applying a standard of general application after the fact that declarations (certified employee time records) are not an acceptable form of documents that show evidence of and the validity of the costs claimed. All of the District documentation was rejected by the Controller. The Controller did not cite any statutory basis for its audit adjustments. Chapter 160, Statutes of 1993 and Chapter 1262, Statutes of 1994 do not provide any authority for the Controller to eliminate the claimed cost. Nor does Government Code Section 17561 or the Commission regulations (Chapter 2.5, Title 2, California Code of Regulations) provide any authority for the Controller to eliminate the claimed costs. Absent some statutory authorization, another source of authority must be stated by the Controller.

The Grossmont Union High School District requests that the draft audit report be corrected as to the facts and the law prior to its final issuance.

Sincerely,

A handwritten signature in cursive script, reading "Robert J. Cornelius".

Robert J. Cornelius
Assistant Superintendent, Business Services

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>